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RETIREMENT PLANNING

Social Security COLA expected to be lower in 2025, analyst predicts
By Rob Burgess
July 11, 2024, 4:40 p.m. EDT

The predicted Social Security cost of living adjustment (COLA) for 2025 is expected to be smaller than this year's figure, according to one analyst.

Given the cooling inflation rate, the 2025 increase could be 2.7%, down from the 3.2% bump in 2024. That's based on the latest Consumer Price Index for Urban Wage Earners and Clerical Workers data through June, said Mary Johnson, retired Social Security and Medicare policy analyst previously with the Alexandria, Virginia-based Senior Citizens League.

The U.S. Bureau of Labor Statistics index, which is used to calculate the COLA, is 2.9% higher than a year ago.

The 2025 COLA will be announced in October, so the prediction will likely change over the next three months, said Johnson.

If that prediction holds, it will be the latest in a trend of falling COLAs in recent years. The 2024 COLA was less than half of what it was in 2023, when it was 8.7%.

Prices for food (up 2.2%), shelter (up 5.4%), electricity (up 4.4%), hospital services (up 7.4%) and home care for the elderly (up 11.4%) continue to outpace the overall rate of inflation.

"Persistently high prices for key essentials are causing distress for many older and disabled Social Security recipients," said Johnson.

Johnson said she was concerned older and disabled adults may be having more difficulty getting enough protein in their diets, as these dietary staples continue to be higher than overall food inflation, as roast beef costs were up 10%, pork chops rose in price 7.4% and eggs prices increased 10.2% this year.

Nicholas Bunio, CFP at Retirement Wealth Advisors in Downingtown, Pennsylvania, said while the coming COLA was likely less robust than last year's, general inflation has also been declining. However, depending on location, medical costs, HOA fees and any number of other factors, inflation on a personal level could be higher than average.

"That is why retirees have to rely on their assets, make sure they are diversified, have spending under control and plan their assets to last, potentially, to 100

years old," he said. "We all know that for most, Social Security will not be enough. And COLA isn't going to be enough for people who have other sudden spending needs or higher costs."

Some clients may not feel the pinch of a lower Social Security COLA at all. Robin Hovis, financial advisor at LPL Financial in Millersburg, Ohio, said for many of his clients a lower COLA would not have much of an effect.

"If a person is spending such a high percentage of their income that a half-percent less COLA is a problem for them, then they're probably not going to be an investing client," he said. "I can't see that coming up in a conversation. I don't mean to imply that all my clients are exceedingly wealthy. I have a lot of people that need to pay attention to their spending and their budget and so forth. But I can't think of anybody that I have where that would become a dealbreaker."